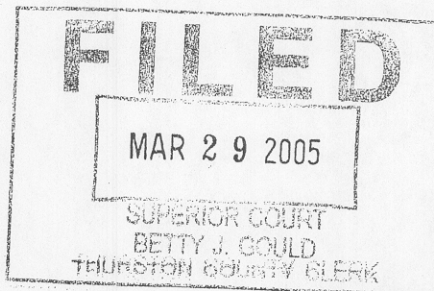


FILE COPY COPY

ATTORNEY GENERAL
OF WASHINGTON

MAR 30 2005

GOVERNMENT COMPLIANCE
& ENFORCEMENT



☐ EXPEDITE
☐ Hearing is Set

Date:

Time:

Judge Richard A. Strophy

**STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT**

MIKE KREIDLER,
INSURANCE COMMISSIONER,

Petitioner,

v.

WASHINGTON CASUALTY
COMPANY,

Respondent.

No. 03-2-00401-1

FOURTH REPORT OF RECEIVER

Mike Kreidler, Insurance Commissioner of the State of Washington and Statutory Receiver of Washington Casualty Company in Rehabilitation ("WCC"), James T. Odiorne, Deputy Insurance Commissioner and Court-appointed Receiver of WCC, and John B Woodall, Special Deputy Insurance Commissioner and Court-appointed Deputy Receiver of WCC, by and through their attorneys, Rob McKenna, Attorney General, and Christina Gerstung Beusch, Assistant Attorney General, hereby submit the Fourth Report of Receiver pursuant to RCW 48.31.040(5), and state as follows:

////

1 1. *Orders of Rehabilitation.* On March 6, 2003, this Court entered an order
2 of Rehabilitation and Appointment of Receiver placing WCC into rehabilitation
3 proceedings pursuant to Chapters 48.31 and 48.99 RCW, and appointing the Statutory
4 Receiver, Receiver, and Deputy Receiver. Pursuant to RCW 48.31.045, a 90-day stay
5 was imposed on all cases in which WCC, as the insurer, was obligated to provide a
6 defense. The stay was continued for another 90-day period by order entered on May
7 28, 2003. Those cases which were stayed are now either being settled or proceeding to
8 trial.
9

10 2. *Accounting to the Court.* RCW 48.31.040(5) and the Order of
11 Rehabilitation require that the Receiver make accountings to the Court not less than
12 semiannually. The semiannual reporting schedule requires a report to be filed in
13 September and March of each year that the receivership is in existence.
14

15 3. *Financial Report.* Attached hereto as **Exhibit A** is the December 31,
16 2004, Annual Statement of WCC, which was filed with the Office of the Insurance
17 Commissioner. As of December 31, 2004, WCC's capital and surplus deficit had been
18 lowered to \$8,030,262, as calculated under Statutory Accounting Principles ("SAP")¹.
19 As of June 30, 2004, WCC had a capital and surplus deficit in the amount of
20 \$8,640,368. The capital and surplus deficit was \$8,850,000 as of March 31, 2003.
21
22

23 ¹ The Insurance Commissioner has adopted regulations promulgating SAP as the accounting
24 treatment to be used by insurance companies transacting business in Washington. RCW 48.05.073;
WAC 284.07.050.

1 The capital and surplus deficit was \$8,752,188 at December 31, 2003. The recent
2 history of the financial condition of WCC is as follows.

3 Liabilities decreased by \$4.14 million during 2004. Cash and invested assets
4 decreased \$2.58 million during that same period as a result of paying claims obligations
5 and lowered investment returns. Admitted assets remain sufficient, cash flow remains
6 strong, and all obligations are being paid when due.

7
8 4. *Retention of Policyholders.* Since the implementation of the receivership
9 of Washington Casualty Company (WCC) on March 6, 2003, significant
10 accomplishments have been made to stabilize and expand the policyholder base of
11 WCC. For the initial period of March 6, 2003, through the end of the 2nd quarter of
12 2003, the retention ratio was 56%. This was the period of greatest uncertainty, as the
13 necessity to place WCC into receivership created concern and predatory practices
14 within the Medical Professional Liability market in Washington. For the 3rd quarter of
15 2003, renewal retention improved to 65%. With the initial periods of uncertainty past,
16 WCC was able to realize exceedingly high retention for the succeeding calendar
17 quarters. In 2004, the company's retention ratio was 95.6%.

18
19 The 2004 Business Plan also pointed to development of new accounts, and WCC
20 was successful in attracting four new accounts in 2004. These included two returning
21 hospitals and two new Community Health Centers.

22
23 WCC will continue efforts to attract previously written accounts in Idaho and
24 Washington to place their insurance coverage with the Company.

1 5. *Operating Expenses.* WCC has continued to monitor and reduce
2 operating expenses. For the six months ending June 30, 2004, operating expenses were
3 \$1,057,425, which is a decrease of \$1,512,416 from the same six-month period of 2003.
4 Operating expenses in the second half of 2004 were cut an additional \$196,837 from
5 2003. There are 15 employees at WCC, including one additional employee added in
6 the second half of 2004.
7

8 6. *Administration of Claims.*

- 9 a. In March 2003, WCC had 432 open claims.
10 b. As of August 1, 2003, it had 367 open claims.
11 c. As of December 29, 2003, it had 343 open claims.
12 d. As of March 11, 2004, it had 309 open claims.
13 e. As of August 31, 2004, it had 248 open claims.
14 f. As of December 31, 2004, it had 205 open claims.
15

16 Efforts to close the Company's open claims, particularly those more than 24 months
17 old, are continuing.

18 7. *Additional Revenues.* In order to secure additional revenues, WCC
19 became the servicing carrier for the Nurse Midwives Joint Underwriting Association
20 (the "Association") in 2004. The Association was created pursuant to Chapter 48.87
21 RCW. A servicing carrier performs policy issue and endorsements to medical
22 malpractice policies written by the Association, the handling of claims arising under
23 Association policies, and the accounting work connected with the Association's
24

1 financial transactions. WCC anticipates receiving approximately \$125,000 for serving
2 as the Nurse Midwives Joint Underwriting Association servicing carrier.

3 8. *Risk Management Activities.* WCC maintains a Risk Management
4 Department. That department is responsible for assisting WCC's policyholders through
5 on-site visits to identify any medical procedures that need to be revised in order to
6 improve patient safety. The Risk Management Department also provides answers to
7 clients' telephonic and electronic questions pertaining to patient safety. It, as well,
8 provides educational programs for WCC policyholders on medical techniques and
9 updates on standards. In 2004, the Risk Management Department made 168 on-site
10 visits to WCC policyholders.
11

12 The Risk Management Department is widely recognized for its technical
13 competence and is an integral part of the reasons WCC insureds transact business with
14 the Company.
15

16 9. *Liquidation of the Holding Company.* By Court Order dated May 29,
17 2004, authorizing the Liquidating and Closing Northwest Healthcare Insurance Services
18 (NHIS), the assets of NHIS, WCC's parent company, were incorporated into WCC.
19

20 10. *Reinsurance.* Upon the ordering of WCC into Rehabilitation on March 6,
21 2003, the company's reinsurance carriers either nonrenewed their reinsurance policies
22 insuring WCC, or the renewal premium quotations were so expensive, WCC's
23 policyholders could no longer afford their portion of a renewal premium. WCC entered
24 into an alliance with One Beacon Professional Partners (OBPP). The alliance resulted

1 in WCC writing an accounts' primary coverage while OBPP wrote the excess policy
2 insuring the accounts' higher limits.

3 Simultaneous with the inauguration of a working agreement with OBPP, WCC
4 commenced a search for reinsurance. On December 1, 2004, a reinsurance policy was
5 issued to WCC. WCC is very pleased to have reinsurance protecting its upper limit
6 exposures.
7

8 Reinsurance companies are very hesitant to reinsure a primary company whose
9 financial condition is deteriorating. It is felt by the staff at WCC the reinsurers who
10 quoted to write its account have increasing confidence in WCC's ability to accomplish
11 a successful rehabilitation.
12

13 11. *Continued Prospects for Rehabilitation.* During the past six months, the
14 efforts to move WCC through rehabilitation have met with continued success. The
15 95.6% renewal retention rate for the subsequent days since January 2004 and the
16 addition of four new accounts point to the belief in the marketplace that WCC is well
17 on the road to recovery. The expense ratio has remained below budget, the claims
18 count continues to drop, and necessary premium rate increases are being implemented.
19

20 ////

21 ////

22 ////

23 ////

24 ////

1 WCC's consulting actuary has confirmed that the claims loss and reserves are at
2 appropriate levels. WCC has secured reinsurance to cover significant losses.

3 DATED this 28th day of March 2005.

4
5
6 John B. Woodall
JOHN WOODALL,
7 Special Deputy Insurance Commissioner, and
8 Deputy Receiver for Washington Casualty Company

9 Presented by:
10 ROB MCKENNA
Attorney General

11 Christina Beusch
12 CHRISTINA G. BEUSCH, WSBA# 18226
Assistant Attorney General
13
14
15
16
17
18
19
20
21
22
23
24